

OPI Pulse: Employee Retirement, HB 1405/SB 2100

Background:

The Florida Retirement System (FRS) is the primary retirement plan for employees of state and county government agencies, district school boards, community colleges, and universities. The FRS also serves as the retirement plan for participating employees in 182 cities and 231 independent special districts that have chosen to join the system. Within the FRS, members have two plan options: the defined benefit plan, also known as the **Pension Plan**; and the defined contribution plan, also known as the **Investment Plan**. The defined benefit or Pension Plan allows employees to accumulate retirement benefits as paid for by their employer. These benefits accrue in a state managed account from which employees receive payment upon retiring. The defined contribution or Investment Plan allows employees to personally direct the investment of their accumulating retirement benefits. Upon retirement, employees receive payment from these funds. Presently, employees are not required to contribute to their benefit plan.

FRS Pension Plan:

The Florida Department of Management Services administers the Pension Plan through the Division of Retirement. An employee can become vested in Florida's Pension Plan after completing six years of service with an FRS employer. Once an employee is vested they are eligible to collect retirement benefits upon retiring. Retirement benefits under the Pension Plan are calculated by multiplying the employee's years of service by the employee's accrual rate (see sidebar) by the employee's average final compensation. Typically, within the FRS, employee retirement occurs at either 30 years of service or age 62. However, this may differ depending on individual employee class. For instance, public safety employees such as police officers, sheriffs and firefighters, who are classified as Special Risk and Special Risk Administrative Support, are eligible for retirement beginning at 25 years of service or age 55 (whichever occurs first). Once an employee is retired, he or she receives a monthly pension based on the above calculation. Depending on the retirement option selected, when a retired employee dies, his or her designated beneficiary will receive the pension payments.

In addition, the Pension Plan also allows employees to participate in the Deferred Retirement Option Program (DROP). Through DROP, an employee who has reached the threshold to be eligible for retirement can continue their employment for as many as five years, or for some instructional personnel, eight years. In the DROP program, the employee begins to receive retirement benefits while earning a regular salary. Retirement benefits accumulate in a FRS trust fund, which receives cost of living adjustments each July. The employee can collect interest on the retirement funds in their trust at a monthly rate equivalent to 6.5 percent. When the employee terminates his or her employment, they are then eligible to collect a lump sum DROP payment, a rollover payment, or a combination of both. Presently, 33,577 FRS members are enrolled in DROP across the state.

Quick Look:

This document includes:

Background Information, Quick Facts Frequently Asked Questions and Links to more information about [Senate Bill 2100](#).

Terms to Understand:

Vested- is a legal term meaning to give an immediate and secure right to an asset which cannot be taken away by any third party. An employee becomes vested in the Investment Plan after completing one work year with a Florida Retirement System (FRS) employer. An employee becomes vested in the Pension Plan after completing six years of service with an FRS employer.

Accrual Rate- the rate at which pension benefits build up for each year of qualified service. Members of the FRS earn different accrual rates depending on their membership class.

Employee Class- the FRS divides all participating employees into five categories or classes as defined in law. The five employee classes in the FRS are: Regular Class, Special Risk Class, Special Risk Administrative Support Class, Elected Officers' Class, and Senior Management Service Class.

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Quick Facts:

87.3: Percent of participants in the Pension Plan

12.7: Percent of participants in the Investment Plan

The FRS currently covers benefits for:

- **655,367** currently employed members
- **304,337** retired members and beneficiaries
- **33,577** members of the Deferred Retirement Option Program

Accrual Rate Percentages:

Service accrual rates depend on the employee's membership class. Employee class accrual rates are listed below:

Special Risk	3%
Special Risk Administrative Support	1.6-1.68%
Senior Management Service	2%
Regular Class	1.6-1.68%
Justices and Judges	3.33%
All Other Elected Officials	3%

**All Quick Facts reflect information collected as of July 1, 2010.*

FRS Investment Plan:

The FRS Investment Plan is administered primarily by the State Board of Administration (SBA). Through the Investment Plan, an employee's retirement benefits accrue in an individual employee account funded entirely by employer contributions and earnings. Benefits are provided through employee-directed investments offered by approved investment providers. An employee can become vested in the Investment Plan after one year of working for an FRS employer. Since the employee controls his or her own investments through this plan, the final amount of money he or she accrues at the point of retirement is the total amount the employee will receive from the FRS Investment Plan. These benefits will be accessible to the retired employee through their established investment account.

Issue at a Glance:

House Bill 1405, Retirement, sponsored by Representative Ritch Workman, was first introduced in the House Government Operations Subcommittee March 16, 2011. The bill passed the House on April 7, 2011, by a vote of 80-38. It was then laid on the table and language from the bill was included in the Budget Conference process. Prior to the Budget Conference process, Senate Bill 2100 was introduced as a proposed committee bill in the Senate. Senate Bill 2100 passed the Senate on May 6, 2011, by a vote of 24-13 subsequently coming back to the Florida House for a final vote of 80-39. Proponents of the bill believe it is necessary to change the FRS in order to align the system more closely with private sector retirement plans. Proponents have expressed the following reasons for the proposed reforms:

- In light of Florida's \$4.6 billion budget deficit, it is necessary to review all state programs for potential cost savings to taxpayers.
- Florida is one of the only states where the taxpayers are the sole contributors to employee pensions.
- An adjustment to state employee benefits is necessary in order to avoid potential layoffs, pay cuts or other detrimental actions that would adversely affect public employees.

What the Bill Does:

Senate Bill 2100 proposes several changes to the Florida Retirement System including:

- Effective July 1, 2011, requires a three percent employee contribution for all FRS members. DROP participants are not required to pay employee contributions.
- For employees initially enrolled on or after July 1, 2011, "average final compensation" means the average of the eight highest fiscal years of compensation for creditable service prior to retirement, for purposes of calculation of retirement benefits. For employees initially enrolled prior to July 1, 2011, the definition of "average final compensation" continues to be the average of the five highest fiscal years of compensation.
- For employees enrolling on or after July 1, 2011, the vesting period for the Pension Plan is eight years of creditable service. For employees enrolled prior to July 1, 2011, vesting will remain at six years of creditable service.

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Additional References:

[Florida House of Representatives](#)

[House Government Operations Subcommittee](#)

[House State Affairs Committee](#)

[Florida Retirement System](#)

[Florida Division of Retirement](#)

[State Board of Administration](#)

- For new enrollees as of July 1, 2011, the normal retirement age and years of service requirements will increase as follows:
 - For Special Risk Class: Increases the retirement age from 55 to 60 years of age; increases the years of creditable service from 25 to 30.
 - For all other classes: Increases the retirement age from 62 to 65 years of age; increases the years of creditable service from 30 to 33 years.
- Employees entering DROP on or after July 1, 2011, will earn interest at a reduced accrual rate of 1.3 percent. For employees currently in or entering DROP before July 1, 2011, the interest rate will remain 6.5 percent.
- Eliminates the cost-of-living adjustment (COLA) for service earned on or after July 1, 2011. Subject to the availability of funding and the Legislature enacting sufficient employer contributions specifically for the purpose of funding the reinstatement of the COLA, the new COLA formula will expire effective June 30, 2016, and the current 3 percent cost-of-living adjustment will be reinstated.

Frequently Asked Questions: SB 2100 Employee Retirement

Do the changes to the FRS plan affect those who have already retired?

No, this bill does not affect the benefits of individuals who have already retired from employment.

If I am already enrolled in the FRS, are the requirements for my retirement age or years of service going to change because of this bill?

No. Employees already enrolled in the FRS maintain the same retirement age of 62 or 30 years of service. Also, those employees already enrolled in the Special Risk Class and the Special Risk Administrative Support Class maintain the same retirement age of 55 or 25 years of service.

Are service accrual rates affected by Senate Bill 2100?

No, the service accrual rates stay consistent with what is provided above in this document.

When would the changes take effect?

The changes outlined in the bill will begin July 1, 2011.

I hear the Florida Retirement System is “fiscally sound.” Why are proponents pushing to change something that isn’t broken?

Proponents of the bill agree that FRS is financially sound. However, proponents assert that because Florida is facing a \$4.6 billion budget deficit, it is necessary to consider changes to the retirement system to reduce the overall cost of the program and to avoid cuts to basic government services, substantial lay-offs or pay cuts.

How much will these measures really save the state of Florida?

Proponents project the total statewide savings annually (including all participating entities) will be \$2.1 billion. Within the total, proponents project the General Revenue savings will be \$1.2 billion annually.

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